

accounting separations and nonstructural safeguards are more than adequate to prevent discrimination and cross-subsidization.

**A. BOCs have supplied exchange access and retail services in other competitive telecommunications markets.**

12. The history of BOC operations in associated telecommunications markets in competition with other companies provides abundant evidence that BOCs have not prevented or suppressed competition in any of those markets. Speculative claims about the theoretical inadequacies of regulatory safeguards against predation, cross-subsidy and discriminatory treatment of competitors simply ignore the abundant historical evidence to the contrary. In practice, competition by non-vertically integrated firms with so called BOC "bottleneck monopolies" has already succeeded in parts of other telecommunications markets that are equally or more susceptible to any supposed anticompetitive tactics where BOCs provide wholesale interLATA services to their long distance affiliates. These services include cellular, voice messaging services (VMS), corridor and intraLATA long distance services. In addition, while each of those services rely to some degree on the BOCs' local networks, here the BOC is not even arguably supplying a bottleneck service to its affiliate and its competitors; rather, it is providing wholesale interLATA services for which it currently possesses no market share and certainly no market power.

13. BOCs have routinely provided interLATA services in the northern New Jersey-New York and Philadelphia-New Jersey corridors for over ten years without anticompetitive consequences.<sup>1</sup> According to AT&T's own estimate, Bell Atlantic's prices are up to one-third lower than those of the Big Three interexchange carriers. Yet after twelve years, it has not dominated the market—it has less than 20 percent of the corridor market. When it asked for permission to lower its own rates in the corridors, AT&T did not allege that Bell Atlantic has been leveraging its "bottleneck"

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<sup>1</sup> The FCC also sees no anticompetitive behavior in the corridors: in September 1990, when it placed these interLATA services provided by LECs under price caps, it elected not to subject them to price floors, as it had in other such decisions.

over carrier access; rather, it complained that Bell Atlantic was undercutting its prices.<sup>2</sup> Similarly, such large LECs as GTE, United Telephone, and Rochester Telephone (now Frontier) have offered interLATA services for years without apparent anticompetitive effect.

14. LECs have participated in cellular telephony since 1983. Despite their head-start, they have not come to dominate the market, as would have happened if they had subsidized these services from their local telephone services or discriminated against their competitors through their control of exchange access services. Despite a late start, non-wireline suppliers have market shares that are, on average, virtually equal to those of the Bell cellular companies, where the latter operate in the Bell wireline service areas;<sup>3</sup> in many cases, the non-wireline suppliers have the larger market share. Though the LECs are presumably the most knowledgeable about the real risks of anticompetitive conduct by incumbent wireline cellular carriers, the number of territories in which LEC cellular affiliates have entered to compete with one another has grown rapidly from about 5 in 1986 to more than 30 in 1995.<sup>4</sup> A sophisticated and knowledgeable company—AT&T—recently sunk \$17 billion into this market through its purchase of McCaw Cellular. Further, AT&T, Sprint, a consortium of cable companies, and others spent additional billions for wireless spectrum in the recent auctions to enable them to compete with the incumbent cellular carriers. These investments are powerful evidence that concern that LECs might be able to discriminate in favor of their cellular affiliates in their home territories has not been a deterrent to entering into competition with them.

15. Many LECs have long been allowed to provide information services, and there is no evidence that competition has been undermined. Since the BOCs and GTE began offering voice messaging

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<sup>2</sup> AT&T Petition for Waiver of Section 64.1701 of the Commission's Rules, CC Docket No 96-26 (November 18, 1996), AT&T Petition for Reconsideration, pp. 3-4, and AT&T Rate Averaging Comments, pp. 29-30. Bell Atlantic reports that its corridor rates satisfy the FCC's imputation rules. Bell Atlantic comments, p. 4.

<sup>3</sup> Estimated from Paul Kagan Associates, Inc., *Wireless Market Stats*, No. 72, August 31, 1995, pp. 6, 13. Also see P.S. Brandon and R. L. Schmalensee, "The Benefits of Releasing the Bell Companies from the Interexchange Restrictions," *Managerial and Decision Economics*, Vol. 16, No. 4, July-August 1995, pp. 349-364.

<sup>4</sup> The 1995 number reflects direct competition among the former BOCs except for Pacific Telesis, which spun off its cellular company (now known as AirTouch Cellular).

services ("VMS"), consumer welfare has increased in at least two ways. First, the monthly retail charge has dropped from \$30 in 1990 to \$5-\$15 in 1995.<sup>5</sup> Second, the LECs began offering VMS to an untapped market segment—residential and small business customers. In five years, the BOCs' participation in this market increased from zero to over six million subscriptions, yet competitors have thrived, and the BOCs and GTE together account for just over 15 percent of total VMS revenues nationally. Once one includes answering machines and commercial answering services in the market definition, the aggregate market share for the BOCs and GTE is considerably smaller. In addition, of course, each LEC's individual market share is tiny.

16. Since 1984, the Bell companies have been permitted to distribute customer premises equipment ("CPE"). The U.S. Justice Department had opposed this right, arguing that the companies could use their local telephone networks to harm competition in the CPE market.<sup>6</sup> The Department was clearly wrong. The average market share of each of the Bell companies is less than one percent, and CPE output has risen while prices have fallen.<sup>7</sup> Consequently, the U.S. Court of Appeals observed that the CPE market "has supported competition even though the BOCs" theoretically "posses[s] an incentive to discriminate in interconnection."<sup>8</sup>

17. Finally, most states permit intraLATA toll competition. If competition in the presence of bottleneck facilities gave rise to uncontrollable discrimination, these markets would show it. Moreover, when interexchange carriers entered these markets in the past, they started with a small initial market share, required substantial use of LEC access facilities, did not have complete dialing parity in any LATA, and had to compete against inexpensive local calling within the LATA and to overcome the imperfectly perceived difference between local and long distance calling.<sup>9</sup> In comparison, BOC affiliates entering the interLATA business would have only

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<sup>5</sup> J.A. Hausman and T.J. Tardiff, "Benefits and Costs of Vertical Integration of Basic and Enhanced Telecommunications Services," April 6, 1995.

<sup>6</sup> *United States v. AT&T*, 552 F. Supp. at 191-93.

<sup>7</sup> NATA, 1995 *Telecommunications Review and Forecast*, Vol. 128, 1995.

<sup>8</sup> *United States v. Western Electric Co.*, 900 F.2d 283, 303 (D.C. Cir. 1990), *cert. denied*, 498 U.S. 911 (1990).

<sup>9</sup> Even under these circumstances, LECs lost significant amounts of market share, particularly for large business customers that combine interLATA and intraLATA traffic on the same dedicated facilities. Although market share  
(continued...)

regional facilities and customer bases, no dialing advantage, and no initial market share. The success of competition for intraLATA long distance is strong evidence that the theoretical possibility of discriminatory treatment of BOC affiliates and their competitors is adequately addressed by existing regulatory safeguards.

18. In sum, regulators need not rely on either *a priori* reasoning or discussions of regulatory rules to conclude that there is no significant danger of LEC anticompetitive discrimination. Years of experience of the LECs competing with other companies provide actual market evidence that they have not suppressed competition.

**B. Nonstructural safeguards have proven to be effective.**

19. The nondiscrimination safeguards embodied in the Act are not new and untried but largely parallel the Computer III nonstructural safeguards used successfully in the supply of enhanced services such as voice messaging. In its 1991 evaluation of these affiliate transaction and cost allocation rules, the FCC found that implementation of its nonstructural safeguards constitutes

a comprehensive regulatory framework that provides an effective alternative to structural separation for protection against anticompetitive conduct.<sup>10</sup>

20. Additional steps that the FCC has taken to prevent cross-subsidization of interstate services include introducing price cap regulation for BOC interstate services and strengthening accounting safeguards, specifically (i) establishing cost allocation rules in the Joint Cost Order, (ii) requiring the filing of cost allocation manuals, (iii) requiring independent audits of cost allocations, (iv)

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(...continued)

data are not generally available, revenue data suggest that such losses may be fairly widespread: from 1988 to 1991, LEC annual toll revenues were about \$15 billion. By 1994 they had declined to only \$13 billion; and, in 1995 they were only about \$11 billion. In contrast total IXC toll revenues in 1989 were about \$51 billion. By 1994 they increased to \$67 billion; and in 1995 they rose to \$72 billion. See Table 5 - Total Toll Service Revenues, *FCC Releases Report on Long Distance Market*, September 27, 1996, p. 11.

<sup>10</sup> In the Matter of Computer III Remand Proceedings: Bell Operating Company Safeguards and Tier 1 Local Exchange Company Safeguards, *Report and Order*, 6 FCC Rcd. (1991) at ¶ 9.

implementing reporting requirements with automated data storage and analysis, and (v) performing on-site audits by the FCC staff.<sup>11</sup>

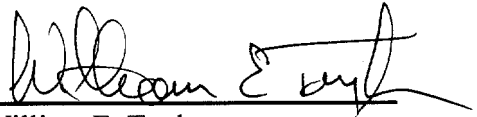
**V. THE SAFEGUARDS APPLY EQUALLY TO BUNDLED AND DISCRETE INTERLATA SERVICES.**

21. The Commission's fourth area of inquiry addresses the character of the wholesale interLATA services in question and asks whether any theoretical concerns about discrimination or cross-subsidization are somehow greater in some instances depending on how the service is provisioned. The answer is no. The principle is simple: whether the wholesale interLATA service is offered in isolation or as part of a "bundled end-to-end" service that includes both interLATA transport and access, it must be made available to all carriers on the same terms and conditions as to the BOC affiliate. This means that if a "bundled" interLATA service includes an exchange access component, the price of the combined service must cover the tariffed price of access, and both the access component of the service and the end-to-end service itself must be offered to non-affiliated carriers on nondiscriminatory terms and conditions. Because the access component must be provided on nondiscriminatory terms, the BOC cannot give its affiliate an advantage by providing access at preferential rates. Likewise, because the end-to-end interLATA service also must be provided on nondiscriminatory terms, the BOC cannot give its affiliate an advantage in the retail interLATA market by providing it a wholesale service at preferential rates. And because any attempt by the BOC to subsidize the interLATA service would effectively require it to subsidize competitors who purchase that service as well, there is no risk that the BOC might misallocate costs between the components of an end-to-end service.

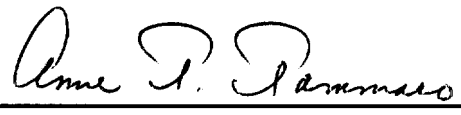
22. As a result, regardless of the form in which the BOC provides wholesale interLATA service to its affiliate, the comprehensive safeguards established in Section 272 are sufficient to ensure that the BOC affiliate's competitors are not competitively disadvantaged and that the BOC's local exchange customers do not subsidize the affiliate's long distance services.

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<sup>11</sup> Report and Order, CC Docket 90-623 (released December 20, 1991) (BOC Safeguards Order) at ¶ 46.

  
William E. Taylor

Subscribed and sworn to before me this  
16<sup>th</sup> day of April, 1997

  
Notary Public

My Commission expires July 1, 2000.



The Bell Atlantic Telephone Companies, et al.,  
Petitioners,  
v.  
Federal Communications Commission and  
United States of America,  
Respondents.

I, James G. Cullen, declare as follows:

1. I am Vice Chairman of Bell Atlantic Corporation. I am responsible for Bell Atlantic's plans for entering the long distance (or "interlata") telephone business.
2. I am submitting this declaration to explain the impact of the FCC Order that is the subject of this appeal on Bell Atlantic's impending entry into the long distance telephone business in the States where it provides local telephone service. As I explain below, the uncertainty created by the Order will prevent Bell Atlantic from implementing its plans to enter the long distance business as a facilities-based provider, force it to delay tens of millions of dollars of investment, and impede its ability to compete effectively against established incumbents such as AT&T, MCI, Sprint and MFS/WorldCom.
3. There are two different ways for local telephone companies such as Bell Atlantic to enter the long distance business. The first is to enter as a facilities-based provider, using existing facilities where possible and adding any new facilities that may be needed to assemble a long



distance network. The second is to enter as a reseller, and to obtain capacity from one of the four facilities-based incumbents and then resell this capacity to retail customers.

4. Bell Atlantic intends to enter as a facilities-based provider. The reason is simple: We estimate that the prices demanded by the facilities-based incumbents to provide services for resale are approximately 45 to 60 percent higher than the cost we would incur to enter as a facilities-based provider. In addition, long distance incumbents have not been willing to make their most advanced capabilities (such as certain high speed data services) available for resale at all, and these capabilities are critical to our ability to compete for the large business segment of the market.

5. Bell Atlantic intends to place the construction, ownership and operation of its long distance network in its operating telephone companies. Again, the reason is simple. The telephone companies currently provide local exchange, exchange access, and short-haul (or "intralata") long distance service. As a result, they already own some facilities, equipment and related support systems that can be used to provide both local and long distance service. They also employ a skilled work force that is trained in the construction, operation, installation and maintenance of telephone facilities and equipment, and that is capable of managing local and long distance facilities alike. Placing the construction and operation of long distance facilities (whether new or existing) in the operating telephone companies will allow us to make the most efficient use of these existing resources. We then will provide long distance services and facilities to our own long distance affiliate and to other carriers on non-discriminatory terms and conditions.

6. By contrast, placing the construction and operation of the long distance network in Bell Atlantic's long distance affiliate (rather than in the operating telephone companies) would significantly increase the cost to provide long distance service. By our estimates, the resulting duplication of facilities and work forces would increase the cost to provide long distance service by approximately 50 to 70 percent. And because none of the facilities or personnel are now in place, we also estimate that this would add at least 18 months to the time needed to provide long distance on a full facilities basis.

7. Prior to the FCC's Order, I understood that the 1996 Act expressly allowed Bell Atlantic to implement the plans I have described. Now, however, I understand that the FCC's Order would not allow us to do so, and would require us instead to place the ownership, construction, installation, maintenance and operation of any facilities used to provide long distance service in Bell Atlantic's long distance affiliate. The impact of this Order is several-fold.

8. First, the uncertainty created by the Order will prevent us from implementing plans to enter the long distance business as a facilities-based provider pending the completion of this appeal. If the FCC's Order is overturned, we plan to place the construction and operation of the long distance network in the operating telephone companies. As a result, investment made in the meantime to create duplicate facilities or work forces in our long distance affiliate may be wasted.

9. Second, the uncertainty will force Bell Atlantic to postpone tens of millions of dollars of investment. As I described above, local telephone companies such as Bell Atlantic can use some existing facilities to assemble their long distance networks, but also must deploy some

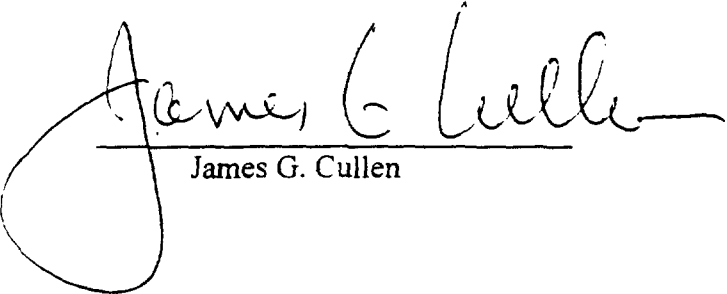
additional facilities such as high capacity trunks and switches dedicated to long distance traffic. In Bell Atlantic's case, the amount of new investment to enter the market as a facilities-based provider amounts to over \$100 million during the first two year period alone. Until the basis on which we will be permitted to provide facilities-based service is resolved, and its financial impact determined, this investment must be postponed.

10. Third, the Order will impede our ability to compete effectively with facilities-based incumbents such as AT&T, MCI, Sprint and MFS/WorldCom. Until this appeal is resolved, Bell Atlantic's only choice will be to enter the long distance business as a reseller. By effectively adding 45 to 60 percent to the cost of our long distance service, however, entering as a reseller will impede our ability to compete with established incumbents, whose own costs are substantially lower than the price they charge to long distance resellers. This is all the more true in the case of large business customers, since long distance incumbents have been unwilling to even make available for resale some of the more advanced services that these customers demand.

11. The result of all of this will be to delay Bell Atlantic's entry as a facilities-based provider of long distance service, and to cause us to lose customers and goodwill that otherwise would be retained if we were permitted to compete effectively. We will lose long distance customers because the facilities-based incumbents will be able to provide service at costs that are substantially lower than those we will incur as a reseller. And we will lose local customers because the long distance incumbents can offer a package of long distance and local service at a lower cost than we can match. They can do so through the simple measure of combining their lower cost long distance services with local services that they obtain from us under the terms of

the 1996 Act at a discount off our already below cost local service rates. These losses will grow the longer the FCC's Order remains in effect.

I hereby declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct to the best of my knowledge and belief.



James G. Cullen

Dated: February 11, 1997



IN THE UNITED STATES COURT OF APPEALS  
FOR THE DISTRICT OF COLUMBIA CIRCUIT

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BELL ATLANTIC TELEPHONE COMPANIES;  
BELL ATLANTIC COMMUNICATIONS, INC.;  
and PACIFIC TELESIS GROUP,

Petitioners,

v.

FEDERAL COMMUNICATIONS COMMISSION and  
UNITED STATES OF AMERICA,

Respondents.

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No. 97-1067

Declaration of Philip J. Quigley

I, Philip J. Quigley, declare as follows:

1. I am Chairman and Chief Executive Officer of Pacific Telesis Group. I oversee both Pacific Telesis' plans to enter the long distance ("interLATA") business through Pacific Bell Communications (Pacific Telesis' long distance affiliate), and its plans to expand and use a statewide long distance network operated by Pacific Bell (Pacific Telesis' operating telephone company).

2. I am submitting this declaration to explain the impact of the FCC's Order regarding implementation of provisions in the 1996 Telecommunications Act that govern Pacific Telesis' entry into the long distance business in states where it currently provides local telephone service. For the reasons explained below, the uncertainty

created by the Order will cause Pacific Telesis to incur significant additional costs in providing long distance services; prevent us from moving forward with plans to enter the long distance market largely as a facilities-based provider of long distance service within California and Nevada; require us to postpone tens of millions of dollars in investments; and place Pacific Telesis at a competitive disadvantage in the local and long distance markets and erode customer goodwill.

3. Pacific Telesis can enter the long distance market in either of two ways. First, it can enter as a "facilities-based provider," using its own existing transmission facilities and adding new facilities where necessary to carry long distance calls. Alternatively, it can enter the market as a "reseller," by obtaining capacity to transmit long distance calls from an incumbent facilities-based provider of long distance services (e.g., AT&T, MCI, Sprint, or MFS/WorldCom), and then reselling the capacity to retail consumers.

4. Pacific Telesis planned to enter the long distance market largely as a facilities-based provider within California and Nevada, rather than as a reseller. In October 1996, Pacific Telesis determined that it would install long distance switches that would be available for use when it began providing long distance services. As a consequence, it is imperative that Pacific Telesis use bulk transport facilities within California and Nevada to connect those switches with each other and with the service areas (LATAs) in those states. Pacific Telesis had planned to make the bulk transport facilities of Pacific Bell available to Pacific Bell Communications to satisfy that need for several important reasons.

5. First, the cost to Pacific Telesis of purchasing all of its long distance capacity from a major facilities-based provider is at least 40 percent higher than the cost of using our own facilities to transmit long distance calls. Second, Pacific Bell currently owns some facilities that could be used for transmission of long distance calls within California and Nevada, if the capacity of these existing facilities were expanded and combined with new facilities. If Pacific Bell expands these facilities, it will also have the opportunity to employ newer, more efficient, and more reliable technology, which will improve its internal communications. Additionally, Pacific Bell already has skilled employees who are expert in managing these facilities. Pacific Telesis can use these existing resources most efficiently if it can expand and modernize the facilities currently located in Pacific Bell and make them available for long distance transmission to both Pacific Bell Communications (its own long distance affiliate) and other long distance providers.

6. By comparison, if Pacific Telesis were to locate additional and wholly separate long distance transport facilities in Pacific Bell Communications, it would be significantly more expensive for Pacific Telesis to enter the long distance market as a facilities-based provider. Our estimates indicate that the cost of duplicating necessary physical facilities for use by Pacific Bell Communications would be greater than \$130 million. Duplicating both the systems for monitoring this network and skilled employees required to operate the facilities would significantly add to these construction costs.

7. Prior to the FCC's issuance of its Order, I understood that the 1996 Act explicitly authorized Pacific Telesis to implement its plans to enter the long distance market largely as a facilities-based provider by expanding its existing transmission



network. I now understand that the FCC's Order prohibits Pacific Telesis from moving forward with this strategy. This aspect of the Order will adversely affect Pacific Telesis in several ways.

8. First, the uncertainty resulting from the FCC's Order will cause Pacific Telesis to incur significant additional costs, since the cost of providing long distance service as a reseller is at least 40 percent higher than providing service as a facilities-based provider according to the plans outlined above.

9. Second, the uncertainty created by the Order will prevent Pacific Telesis from moving forward with its plans to enter the long distance market largely as a facilities-based provider in California and Nevada. Because of the tremendous costs involved in duplicating existing physical and personnel resources, Pacific Telesis cannot proceed with its plan to operate as a facilities-based provider until it knows with certainty that it will be permitted to implement its original plans for Pacific Bell to lease facilities to Pacific Bell Communications and other long distance providers.

10. Third, the uncertainty created by the Order will force Pacific Telesis to postpone tens of millions of dollars in investments to construct additional facilities for long distance transmission. Again, in light of the significant costs involved in constructing new facilities, Pacific Telesis cannot make this investment until this challenge to relevant portions of the FCC's Order is resolved.

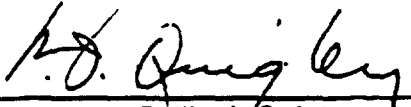
11. Fourth, the delay will place Pacific Telesis at a disadvantage with respect to its competitors. As explained above, the costs of operating as a reseller of long distance services are much higher than operating largely as a facilities-based provider. Moreover, while the 1996 Act sharply limits the price that local telephone companies

such as Pacific Telesis can charge long distance carriers buying local capacity for resale, long distance carriers are not subject to similar restrictions in selling capacity to local telephone companies. As a result, Pacific Telesis will be at a disadvantage in offering a package of services that combines local and long distance services at a price competitive with the price that the incumbent long distance carriers can offer.

12. Fifth, the uncertainty surrounding the FCC's Order will prevent Pacific Telesis from expanding and upgrading its existing facilities until it knows whether it may lease these facilities to Pacific Bell Communications and any other third party providers. This delay will mean that our local telephone customers will lose the benefits of Pacific Bell's use of a more reliable and capable internal network.

13. The cumulative effect of these consequences will be to erode customer goodwill and diminish Pacific Telesis' competitive position in the local and long distance market.

I hereby declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct to the best of my knowledge and belief.

  
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Philip J. Quigley  
Chairman, Pacific Telesis Group

Dated: February 11, 1997



Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

In the Matter of	)	
	)	
Implementation of the Non-Accounting	)	CC Docket No. 96-149
Safeguards of Sections 271 and 272 of the	)	
Communications Act of 1934, as amended.	)	

**Declaration of Hardy F. Moebius**

I, Hardy F. Moebius, hereby declare as follows:

1. I am an executive director in Bell Atlantic's Carrier Services organization. Carrier Services is the business unit that is responsible for providing services to long distance customers and to competing local carriers, and is staffed and managed separately from the retail business units of Bell Atlantic. My own responsibilities include the planning and implementation of any interLATA facilities or services that Bell Atlantic's local operating telephone companies are allowed to provide to interLATA carriers, including Bell Atlantic's own long distance affiliate, Bell Atlantic Communications, Inc. ("BACI").

2. I submit this declaration in response to the Commission's recent public notice in this proceeding. Among other things, the notice asks what kinds of interLATA facilities or services Bell Atlantic's local operating telephone companies might seek to provide to their long distance affiliate. This issue is addressed at some length in the attached declaration of Bell Atlantic's Vice Chairman, James G. Cullen, with which I fully concur. Mr. Cullen also explains in his declaration why it is far more cost effective for Bell Atlantic to place the construction, ownership and operation of its long distance network in its operating telephone companies. My declaration

here will briefly elaborate on some of the functions described by Mr. Cullen that Bell Atlantic's local operating telephone companies may provide to their long distance affiliate.

3. As described by Mr. Cullen, Bell Atlantic's local telephone companies already own some facilities, equipment and related support systems that can be used to provide both local and long distance service. To cite one illustrative example, Bell Atlantic today has in place an official services network used in the operation of its local telephone network that includes fiber optic facilities that cross LATA boundaries. These facilities, which include a series of interconnecting SONET rings, can be used within a LATA to provide local exchange and intraLATA toll services. Where these facilities cross LATA boundaries, they also can be used to provide interLATA service, and currently are used to provide such service for permitted internal network functions. Given the ability to increase fiber capacity through the addition of new electronics, additional capacity of these fiber optic facilities could be used to provide interLATA services to BACI and to other long distance carriers on a non-discriminatory basis. Also, in instances where facilities are operating at less than full capacity, the spare capacity could be used for the same purpose. Providing service over these existing facilities, where possible, is obviously less costly than deploying all new, redundant facilities.

4. I understand, however, that the Commission's previous order in this proceeding would not allow any such existing facilities to be used to provide interLATA services unless they were first sold to BACI or another long distance carrier. Because they are currently used in the operation of the local telephone network, these facilities realistically cannot be transferred to BACI or other carriers, nor could ownership of the facilities realistically be divided among more than one party. As an illustration, if fiber cable connecting Wilmington, Delaware to Baltimore,

Maryland had some available capacity for use in providing an interLATA service, it would not be realistic to isolate and transfer ownership of just that portion of the cable that carried interLATA services. It would be possible, however, for the use of these facilities to be tracked and the associated costs properly allocated.

5. Similarly, just as Bell Atlantic has fiber facilities that carry some interLATA traffic, it also has existing switches that switch this traffic. These switches handle local exchange and toll services in addition to any permissible interLATA traffic. Again, to the extent any of these switches are operating at less than full capacity, they could be used efficiently to provide interLATA services to BACI and to other long distance carriers on a non-discriminatory basis. But because they currently are used in the operation of the local network, they could not realistically be transferred to BACI or to other carriers, nor could ownership of the switch realistically be divided between multiple parties. As with the fiber facilities, however, it would be possible for the use of these facilities to be tracked and the associated costs properly allocated.


6. In addition to using existing facilities wherever possible, Mr. Cullen also explained that new facilities would need to be added to provide long distance services to BACI and to other long distance carriers. There are at least three reasons that that this can be done most efficiently if the local operating telephone companies do such construction, whether it involves the deployment of new fiber facilities or new switches. First, the new facilities could be deployed by the same skilled and experienced work force relied upon by the local companies, and the same work force that already is specially trained in the construction and installation of telephone facilities and equipment. In contrast, a requirement to place any construction or installation work in BACI would require use of a redundant work force, and would materially increase the cost to

deploy new facilities. Second, the new facilities could use existing rights of way, also making such construction more economical. Third, the new facilities could connect with and rely on any available capacity in existing facilities such as those described above.

7. Finally, the ongoing operation and maintenance of the interLATA facilities, whether new or existing, also could be performed most efficiently through the operating telephone companies. Again, the local operating companies already have a skilled work force and related support systems that are capable of managing local and long distance facilities alike. As a result, barring the use of the same resources in the operation and maintenance of any facilities that are used for interLATA services would be wasteful.

8. I understand that some parties have argued that Bell Atlantic's local telephone companies should not be allowed to provide long distance facilities and services because they might allocate too few costs to the long distance services in order to benefit their own long distance affiliate. From a business standpoint, however, this simply makes no sense. Under the terms of the 1996 Act and the Commission's rules, Bell Atlantic is required to make any interLATA facilities or services it provides to its own long distance affiliate available for use by all other long distance carriers on non-discriminatory terms and conditions. It also is required to publicly disclose the terms under which it makes any such facilities or services available to its affiliate. This means that if Bell Atlantic were to attempt to subsidize service to its own affiliate, the net effect is that it also would have to subsidize service provided to competing long distance carriers.

I hereby declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct to the best of my knowledge and belief.

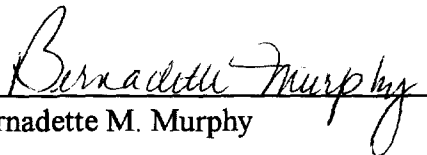
  
Hardy F. Moebius

Dated: April 16, 1997



**CERTIFICATE OF SERVICE**

I hereby certify that on this 17th day of April, 1997, a copy of the foregoing BELL COMPANY COMMENTS ON EXPEDITED RECONSIDERATION OF INTERPRETATION OF SECTION 272(e)(4) was served by U.S. mail, first class, postage prepaid or via hand delivery upon the parties on the attached service list.

  
Bernadette M. Murphy